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ANNUAL REPORT

1966

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GREAT NORTHERN CAPITAL CORPORATION LIMITED



# **GREAT NORTHERN CAPITAL CORPORATION LIMITED**

The Annual Meeting of shareholders of Great Northern Capital Corporation Limited will be held on November 23, 1967 at 11.00 a.m. (Eastern Standard Time) at the head office of the Company, 35 Old Mill Road, Toronto, Ontario. Shareholders not planning to attend in person are requested to execute and send in their proxies.

# GREAT NORTHERN CAPITAL CORPORATION LIMITED

## Board of Directors

A. L. BEATTIE, Q.C. - - - - - Toronto, Ontario  
J. O. BOISI - - - - - New York, New York  
G. E. CREBER, Q.C. - - - - - Toronto, Ontario  
J. D. GROUND - - - - - Toronto, Ontario  
G. F. H. NELSON - - - - - New York, New York  
J. E. McCONNELL - - - - - Toronto, Ontario  
A. P. MURPHY - - - - - Toronto, Ontario  
R. M. THOMSON - - - - - Toronto, Ontario  
J. P. WALWYN - - - - - Toronto, Ontario

## Officers

ALLAN L. BEATTIE, Q.C. - - - - - PRESIDENT  
A. ROY VOELKER, C.A. - - - - - VICE-PRESIDENT,  
SECRETARY AND TREASURER  
DONALD E. FOX, C.A. - - - - - ASSISTANT SECRETARY  
AND ASSISTANT TREASURER  
HENRY K. MUEGGLER - - - - - ASSISTANT SECRETARY

## Registrars and Transfer Agents

CROWN TRUST COMPANY—Toronto, Montreal, Calgary and Vancouver  
THE BANK OF NOVA SCOTIA TRUST CO. OF NEW YORK

## Listing

The Common Shares of the Company are listed on The Toronto Stock Exchange.

## Auditors

CLARKSON, GORDON & CO. - - - - - Toronto

## Head Office

35 OLD MILL ROAD - - - - - Toronto, Ontario



# GREAT NORTHERN CAPITAL CORPORATION LIMITED

## President's Report

### To the Shareholders:

Your directors regret the delay in issuing the 1966 annual report of the Company. As you were advised in my letter of September 12, 1967 to all shareholders, the closing of the accounts for 1966 was postponed pending a clarification of the Company's liability for income taxes. The discussions with the Department of National Revenue have now been concluded and the Company's tax liability has been determined. This liability is fully reflected in statements for 1966 which accompany this report.

As reported last year the Company now directly owns all of the shares of Commodore Sales Acceptance Limited which company had suffered substantial losses upon the collapse of Atlantic Acceptance. In December of 1966, your Company sold all of its assets and undertaking to Commodore and changed Commodore's name to Home Smith Developments Limited. As a result of this transaction and the utilization of part of the losses for income tax purposes, the Company's over-all liability for income tax has been substantially reduced. It would appear that, through the use of the remaining tax losses, the Company will not be subject to any substantial amount of income tax until after 1970.

I am pleased to report that the consolidated net income of your Company for the year 1966 was \$1,239,931 (60¢ per share). Consolidated sales amounted to \$12,497,405 of which \$9,216,850 represented sales of land. Book value of shareholders' equity in the Company increased from \$1,133,592 (60¢ per share on 1,878,630 shares in 1965) to \$3,483,557 (\$1.68 per share on 2,078,630 shares in 1966). Aside from earnings, the main increase in equity resulted from the reversal of estimated future income tax provided in previous years.

The Etobicoke land operations of your Company continued to be buoyant, with sales of 133 acres of land for a total of \$4,740,000. 1967 sales in Etobicoke will be substantially less than this figure and again it should be noted that the Company's land development programme in Etobicoke is nearing completion.

Other operations of your Company are represented by the operations of its 78.7% owned subsidiary, Western Heritage Properties Limited, whose accounts are fully consolidated with those of your Company. A copy of Western Heritage's annual report accompanies this report.

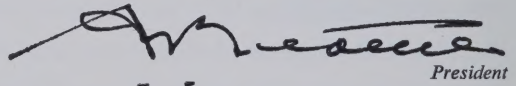
During the year the Company made repayments of long-term debt in excess of \$1,000,000 and has repaid bank indebtedness by approximately \$2,100,000 while at the same time continuing to maintain a satisfactory working capital position.

The Company's investment in the Harbour Square waterfront project in Toronto, which investment amounts to \$1,870,000 plus accrued interest secured by a second mortgage, continues to be of concern as mentioned in Note D to the financial statements. Substantial financial backing is required to enable this multi-million dollar project to proceed. In the meantime a foreclosure action, instituted by one of the first mortgagees resulting from a default in its mortgage, is proceeding. In order to protect its position your Company has been actively seeking a solution to the financing problem but at the moment there is nothing to report.

In general, 1966 was a year during which your Company carried out certain of the plans which it had been formulating for some time. It is felt that the changes in corporate structure and accounting policy which were effected will result in long-term benefits to the Company.

The board wishes to express its appreciation to the employees of the Company whose continuing loyalty during the difficult period through which the Company is passing has been most gratifying.

November 3, 1967.



President

**GREAT NORTHERN CAPITAL CORPORATION LIMITED**  
AND ITS CONSOLIDATED SUBSIDIARY COMPANIES

**Consolidated Statement of Income for the year ended December 31, 1966**

(with comparative figures for the year ended December 31, 1965)

	1966	1965
Sales:		
Land - - - - -	\$ 9,216,850	\$4,859,567
Manufacturing and other - - - - -	3,280,555	3,131,572
	<u>12,497,405</u>	<u>7,991,139</u>
Cost of sales:		
Land (see Note M) - - - - -	3,492,351	1,770,345
Manufacturing and other - - - - -	1,908,242	1,923,200
	<u>5,400,593</u>	<u>3,693,545</u>
Gross profit - - - - -	7,096,812	4,297,594
Dividends and interest - - - - -	124,163	363,951
Other income - - - - -	62,448	45,081
	<u>7,283,423</u>	<u>4,706,626</u>
Expenses:		
Operating, selling and administrative (see Note M) - - - - -	3,004,900	2,772,429
Interest—		
Long-term debt - - - - -	599,062	541,761
Other - - - - -	214,028	279,264
Directors' fees - - - - -	—	8,500
Depreciation, depletion and amortization - - - - -	296,434	300,825
Amortization of debt discount and financing expenses - - - - -	11,205	10,538
	<u>4,125,629</u>	<u>3,913,317</u>
	3,157,794	793,309
Appraisal surplus earned on land sold during the year (see Note B) - - - -	189,209	107,625
	3,347,003	900,934
Provision for income taxes - - - - -	1,868,478	810,100
	<u>1,478,525</u>	<u>90,834</u>
Add:		
Minority interest in loss of a subsidiary company - - - - -	4,431	59,977
Company's share of net income of a partnership (see Note E) - - - -	61,897	—
	<u>1,544,853</u>	<u>150,811</u>
Less:		
Net loss of a subsidiary company which is in voluntary liquidation (see Note A) - - - - -	304,922	—
Net income for the year - - - - -	<u>\$ 1,239,931</u>	<u>\$ 150,811</u>

The accompanying notes are an integral part of the financial statements.



# GREAT NORTHERN CAPITAL

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## AND ITS CONSOLIDATED

### Consolidated Balance Sh

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#### ASSETS

Current:	1966	1965
Cash and treasury bills - - - - -	\$ 913,564	\$ 280,683
Accounts receivable - - - - -	589,099	1,108,074
Amounts receivable under sale agreements - - - - -	3,718,967	2,693,917
Marketable investments - - - - -	—	511,600
Inventories—		
Land, including development expenditures of \$2,185,175 in 1966 and \$1,131,441 in 1965 (see Note B) - - - - -	2,931,242	1,987,370
Other, at the lower of cost or estimated net realizable value - - - - -	574,611	543,492
Notes and mortgages receivable due within one year - - - - -	18,500	2,322,600
Prepaid expenses - - - - -	93,224	117,785
Total current assets - - - - -	8,839,207	9,565,521
Land inventory, less amount included in current assets (see Note B) - - - - -	3,439,066	3,950,099
Land options (see Note C) - - - - -	101,513	93,550
Notes and mortgages receivable, less amounts due within one year included in current assets (see Note D) - - - - -	3,320,615	1,087,318
Investments:		
Unconsolidated subsidiary company—		
Shares, nominal value - - - - -	—	1
Notes, estimated value (see Note D) - - - - -	—	875,000
Other, at estimated value - - - - -	—	34,875
Investment in a land development partnership (see Note E) - - - - -	217,333	155,436
Fixed assets (see Note F) - - - - -	3,905,062	4,936,142
Other assets—at cost - - - - -	304,064	62,893
Unamortized debt discount and expense (accumulated amortization amounts to \$38,789 in 1966 and \$27,584 in 1965) - - - - -	76,502	87,707
	<u>\$20,203,362</u>	<u>\$20,848,542</u>

The accompanying notes are an i



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(Incorporated under the laws of Ontario)

## SUBSIDIARY COMPANIES

as at December 31, 1966

(as at December 31, 1965)

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current:	1966	1965
Bank indebtedness—secured (see Note G) - - - - -	\$ 1,715,460	\$ 3,877,842
Accounts payable and accrued liabilities - - - - -	802,113	855,977
Income taxes payable (see Note H) - - - - -	2,414,521	71,820
Accrued interest - - - - -	74,243	100,135
Deposits on future land sales - - - - -	142,758	166,700
Estimated costs to complete subdivisions under development - - - - -	1,827,957	648,602
Demand notes payable—secured (see Note G) - - - - -	718,605	845,092
Current instalments on long-term debt - - - - -	734,062	1,015,098
Total current liabilities - - - - -	8,429,719	7,581,266
Long-term debt, less current instalments included in current liabilities (see Note I) - -	8,290,085	9,741,204
Estimated future income taxes (see Note H) - - - - -	—	2,388,047
Minority interest (see Note J) - - - - -	1	4,433
Shareholders' equity:		
Capital stock (see Note K)—		
Authorized:		
2,500,000 shares without par value		
Issued and fully paid:		
2,078,630 shares (1,878,630 in 1965) - - - - -	1,679,233	979,233
Surplus—per statement (see Note I) - - - - -	1,804,324	154,359
Total shareholders' equity - - - - -	3,483,557	1,133,592
Approved by the Board:		
A. L. BEATTIE, Director		
A. P. MURPHY, Director		
	<u>\$20,203,362</u>	<u>\$20,848,542</u>

part of the financial statements.

**GREAT NORTHERN CAPITAL CORPORATION LIMITED**  
AND ITS CONSOLIDATED SUBSIDIARY COMPANIES

**Consolidated Statement of Surplus for the year ended December 31, 1966**

(with comparative figures for the year ended December 31, 1965)

Earned Surplus (Deficit)		1966	1965
Balance at beginning of the year	- - - - -	\$ (281,236)	<u>\$5,193,559</u>
Add:			
Net income—per statement	- - - - -	1,239,931	150,811
Reversal of provision for estimated future income taxes (see Note H)	- -	1,888,600	—
Net gain on sale of investments	- - - - -	125,074	412,682
Gain on sale of fixed assets	- - - - -	60,153	385,485
		<u>3,313,758</u>	<u>948,978</u>
		3,032,522	6,142,537
Less:			
Write-off of excess of cost of investment in subsidiary company over the underlying book value of its net assets at date of acquisition (see Note L)		730,000	1,243
Amounts written off (see Note M)—			
Cost of water distribution system applicable to prior years' cost of sales		237,663	—
Prior years' operating advances to a country club	- - - - -	433,262	—
Adjustment to reflect the excess of the company's investment in a subsidiary company over losses recorded since acquisition thereof (see Note A)	-	71,217	—
Write-down of marketable and other investments to an estimated realizable value	- - - - -	2,442	196,763
Dividends paid	- - - - -	—	422,667
Write-down of investment in an unconsolidated subsidiary company—			
Shares to a nominal value of \$1	- - - - -	—	5,428,100
Senior secured notes to an estimated realizable value	- - - - -	—	375,000
		<u>1,474,584</u>	<u>6,423,773</u>
Balance at end of the year	- - - - -	<u>1,557,938</u>	<u>(281,236)</u>

**Appraisal Surplus (see Note B)**

Balance at the beginning of the year	- - - - -	435,595	543,220
Less:			
Amount earned on land sold during the year	- - - - -	189,209	107,625
Balance at end of the year	- - - - -	<u>246,386</u>	<u>435,595</u>
Total surplus	- - - - -	<u>\$1,804,324</u>	<u>\$ 154,359</u>

The accompanying notes are an integral part of the financial statements.

**GREAT NORTHERN CAPITAL CORPORATION LIMITED**  
AND ITS CONSOLIDATED SUBSIDIARY COMPANIES

**Notes to Consolidated Financial Statements**  
**December 31, 1966**

**NOTE A:**

In the accompanying financial statements the accounts of the company have been consolidated with those of its subsidiary companies except for the accounts of a subsidiary which ceased operations during 1966 and was placed in voluntary liquidation. The operating loss of this subsidiary for the ten-month period ended October 31, 1966, the date operations ceased, is reflected in the accompanying consolidated statement of income. The company's total investment in this subsidiary exceeded the operating losses recorded in the consolidated financial statements since acquisition of the subsidiary by \$71,217. Since no recovery is anticipated on the company's investment, the additional loss of \$71,217 has been written off in the accompanying consolidated statement of surplus.

**NOTE B:**

Certain of the company's land was restated in 1954 to reflect the value determined by an independent appraisal at fair market value made in 1953 and subsequent acquisitions were recorded at cost. The amount of the appraisal write-up remaining in the account as at December 31, 1966 was \$246,386 (\$435,595 in 1965) of which \$85,785 (\$210,364 in 1965) was included in current assets.

**NOTE C:**

A subsidiary company has options to purchase a total of 1,049 acres of land at prices varying from \$300 to \$1,200 per acre. The amount required to exercise all the options after deducting recoverable option payments of \$99,725 is \$451,712.

**NOTE D:**

Notes and mortgages receivable include notes with a face value of \$1,870,000 which were due on February 28, 1966. These notes are secured by a second mortgage on certain lands forming part of a proposed real estate development. A first mortgagee has commenced foreclosure proceedings due to a default in the payment of certain monies due under the mortgage which he holds on a major portion of the land. The company is unable to determine at this time whether or not its interest under its second mortgage will be foreclosed. The company feels that if arrangements can be made to refinance commitments to which the project is subject, the underlying lands have sufficient value to secure the company's investment. For this reason no provision for an eventual loss, if any, has been made. Interest income, in the amount of \$128,889 accrued in the prior year, has been reversed through income account in 1966.

The company's investment in senior secured notes of Atlantic Acceptance Corporation Limited has been reclassified in 1966 as notes receivable rather than due from a subsidiary company. These notes are carried at their estimated realizable value of \$875,000 which is 70% of their face value.

**NOTE E:**

The company's 55% interest in a land development partnership is carried at cost plus the company's share of profits less losses since acquisition.

**NOTE F:**

Fixed assets, at cost, consist of the following:

	1966	1965
Land and land improvements - - - - -	\$ 271,617	\$ 312,151
Buildings - - - - -	1,313,696	1,662,037
Machinery and equipment - - - - -	2,614,837	2,883,148
Country club and golf course facilities - - - - -	1,081,827	880,493
Clay deposit and peat moss bog - - - - -	467,629	466,201
Water distribution system (see Note M) - - - - -	—	377,957
Leasehold improvements - - - - -	—	10,190
	<u>5,749,606</u>	<u>6,592,177</u>
Less accumulated depreciation and depletion - - - - -	1,844,544	1,656,035
	<u>\$3,905,062</u>	<u>\$4,936,142</u>



NOTE G:

Assets having a book value in excess of the bank indebtedness and demand notes payable have been pledged as collateral against these liabilities.

NOTE H:

Except for \$499,447 which has been included in current income taxes payable the amount previously provided for estimated future income taxes has been eliminated by the application of the loss carry forward of a subsidiary company.

NOTE I:

Long-term debt consists of the following:

Great Northern Capital Corporation Limited—

	1966	1965
5½% notes due 1977 (U.S. \$4,000,000) - - - - -	\$3,932,500	\$ 4,129,125
6% first mortgage bonds due 1970 - - - - -	160,810	437,087
	<u>4,093,310</u>	<u>4,566,212</u>

Subsidiary companies—

2¾% mortgage due 1967 to 1977 - - - - -	97,297	97,297
5% note due 1968 - - - - -	100,000	124,628
5% mortgage due 1967 - - - - -	89,800	92,400
5½% mortgages due 1970 - - - - -	20,000	20,000
6% note due 1968 - - - - -	21,622	21,621
6% mortgages due 1967 to 1977 - - - - -	1,393,393	1,450,052
6% first mortgage bonds due \$100,000 on March 31 of each year 1967 to 1971	500,000	600,000
6½% mortgage due 1967 to 1970 - - - - -	335,580	486,486
7% subordinated convertible debentures Series A due June 30, 1973 \$4,239,400		
Less inter-company holdings - - - - -	<u>2,818,100</u>	<u>1,421,300</u>
7% mortgages due 1967, 1969 and 1970 - - - - -	259,493	293,949
7¼% mortgage due 1978 - - - - -	251,369	500,000
7½% mortgage due 1969 - - - - -	102,140	—
8% mortgages due 1969 and 1970 - - - - -	285,000	285,000
Miscellaneous mortgages - - - - -	53,843	93,988
Priority creditors - - - - -	—	380,061
Unsecured creditors - - - - -	—	323,308
	<u>4,930,837</u>	<u>6,190,090</u>

Total long-term debt - - - - -	9,024,147	10,756,302
Less current instalments included in current liabilities - - - - -	734,062	1,015,098
	<u>\$8,290,085</u>	<u>\$ 9,741,204</u>

The 5½% notes due December 1, 1977 are secured by a floating charge on the assets and undertaking of the company. Pursuant to the terms of the agreement in connection with the issuance of the notes, the company may not make any distribution to the shareholders by way of dividends or otherwise in cash or other assets except to the extent that any such distribution shall be represented by consolidated net earnings accrued since December 1, 1957.

On December 1, 1967 and on December 1 in each year thereafter to and including December 1, 1976, the company is required to apply to the prepayment of the notes, without premium, the sum of U.S. \$200,000. In addition, the company is required to apply to the prepayment of the notes, without premium, the sum of U.S. \$100,000 upon the repayment of certain of the demand notes and the sale of certain land owned by a subsidiary company, which land secures the subsidiary's guarantee of the said demand notes. The company may prepay the 5½% notes at any time upon payment of a premium of 2¾% to November 30, 1967, decreasing ¼% annually to November 30, 1976 and without premium thereafter.

The 7% subordinated debentures Series A of a subsidiary company have been issued under a trust indenture and are redeemable at the option of that subsidiary in whole or in part at 103½% of the principal amount up to and including June 30, 1967 and at decreasing premiums thereafter prior to maturity plus accrued interest to the

date of redemption. The debentures are convertible at the option of the holder into shares in the capital of the subsidiary company at \$3 per share prior to redemption or maturity.

**NOTE J:**

Minority interest in subsidiary companies is carried at a nominal value of \$1 due to the capital deficiencies of these companies.

**NOTE K:**

During the year the company issued 200,000 shares at \$3.50 each (see NOTE L).

A total of 48,700 shares are reserved for issue as follows:

Share Purchase Warrants and Options:

- (a) 47,200 Series CX share purchase warrants giving the right to subscribe to shares at \$8.79 per share to September 14, 1967.
- (b) Options to purchase shares as follows—
  - 1,500 shares at \$5.00 each exercisable:
    - 500 shares up to October 31, 1967
    - 500 shares from October 31, 1966 to October 31, 1968
    - 500 shares from October 31, 1967 to October 31, 1969.

**NOTE L:**

In satisfaction of an agreement dated December 20, 1965, with Montreal Trust Company as receiver and manager of Atlantic Acceptance Corporation Limited, the company issued 200,000 shares from its treasury at a value of \$3.50 per share as consideration for the purchase of all the outstanding shares of Commodore Sales Acceptance Limited. The company also advanced \$30,000 to satisfy the terms of a court approved proposal to extinguish all claims of Commodore's creditors. The above resulted in the company's total investment in Commodore of \$730,000 and since Commodore had no net worth the cost of this investment was written off.

The company subsequently sold all of its assets and undertaking to Commodore and changed Commodore's name to Home Smith Developments Limited. The assets of Home Smith Developments are included in the accompanying consolidated financial statements.

As a result of the aforementioned proposal, made to creditors under Part III of the Bankruptcy Act on April 21, 1966, all liabilities of Commodore were extinguished with the exception of certain amounts owing to a secured creditor. The liability to this creditor is restricted by agreement to the amounts realized by him out of his security. Accordingly, the assets securing this indebtedness and the offsetting liability are not included in the accompanying consolidated balance sheet.

**NOTE M:**

During the year the water distribution system of a land development project, which was previously carried in fixed assets, was dedicated in trust for the benefit of the community. Accordingly the amount previously carried in fixed assets, as well as additional charges during the year, have been allocated as follows: \$304,501 pertaining to lots sold during the year was charged to the current year's cost of sales, \$237,663 pertaining to lots sold in previous years was charged to surplus account, and \$266,282 pertaining to land as yet unsold was included in land inventory.

Also during the year, all operating advances to a country club at a land development project were written off. This has resulted in a charge to surplus account of \$433,262 for prior years' advances while current year's advances amounting to \$119,517 have been charged to operating, selling and administrative expense in the accompanying statement of income.

**NOTE N:**

U.S. dollar amounts included in these financial statements are converted into Canadian dollars at the official rate of exchange, which approximates the current rate of exchange at December 31, 1966, except that long-term debt is at the rate prevailing at date of issue.

**NOTE O:**

A subsidiary company is contingently liable for sale agreements discounted in the approximate amount of \$1,515,600 and mortgage loans in the amount of \$37,887 as at December 31, 1966.



## **Auditors' Report**

To the Shareholders of

GREAT NORTHERN CAPITAL CORPORATION LIMITED:

We have examined the consolidated balance sheet of Great Northern Capital Corporation Limited and its consolidated subsidiary companies as at December 31, 1966 and the consolidated statements of income and surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Reference is made in Note D to the lack of provision for possible loss in connection with notes having a face value of \$1,870,000 which matured February 28, 1966.

In our opinion, except that no provision has been made for possible loss on the notes referred to in Note D to the financial statements, the accompanying consolidated balance sheet and consolidated statements of income and surplus present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the changes explained in Note M to the financial statements.

Toronto, Canada,  
November 1, 1967.

CLARKSON, GORDON & CO.  
*Chartered Accountants*





